

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7240

BILL NUMBER: HB 1683

NOTE PREPARED: Jan 24, 2005

BILL AMENDED:

SUBJECT: Property tax abatement.

FIRST AUTHOR: Rep. Van Haaften

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Public Safety:* This bill provides that tax abatement deductions do not apply for purposes of taxes imposed for police protection, fire protection, and emergency services.

Abatement Credit: The bill allows a municipality to authorize a credit against municipal property taxes to a taxpayer in a municipal taxing district in which the assessed valuation subject to tax abatement is proportionally greater than the average assessed valuation subject to tax abatement in other taxing districts in the county. It imposes an equalization levy in the municipality to replace the revenue lost due to the credit.

Effective Date: January 1, 2006.

Explanation of State Expenditures: *Public Safety:* The state currently pays a Property Tax Replacement Credit (PTRC) in the amount of 60% of school general fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. In addition, the state pays a 20% homestead credit against the net (after PTRC) levy on operating fund levies attributable to owner-occupied homes. PTRC and homestead credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

This provision would add both real property and business personal property AV to the tax base. Depending on the level of public safety tax levies and the amounts of real AV and personal property AV that are added in a specific taxing unit, the amount of gross levy attributable to real and personal property could change in differing amounts and directions. The gross levy attributable to homesteads would decline. State PTRC expense

would change with the shifts between real and personal. State homestead credit expense would decline. The total change in state expenses due to this provision could be an increase or a reduction.

Abatement Credit: If a county adopts an equalization property tax levy, as explained below, the state's expenses for Property Tax Replacement Credits (PTRC) and Homestead Credits would increase.

Explanation of State Revenues:

Explanation of Local Expenditures: This proposal will increase the administrative expenses of the county auditors by an indeterminable amount.

Explanation of Local Revenues: *Public Safety:* Under this provision, property tax abatements would not apply to tax rates imposed for the operating cost of police and fire protection and emergency services. According to the bill, the aforementioned operating costs would not include pensions, capital expenditures, or any jail expenditure (operating or capital). This proposal would mean that the assessed value tax base would be larger and the tax rates smaller for these public safety operating costs. There would be a shift of the tax burden for these services from all taxpayers to those that are receiving abatements.

Tax Abatements: The bill provides that tax abatement deductions do not apply for purposes of taxes imposed for police protection, fire protection, and emergency services. This causes a shift of the property tax burden from the all taxpayers to taxpayers receiving abatements in the form of an increased tax rate. A \$1.2 B reduction in assessed value would cause an estimated \$0.005 decrease in the statewide average net tax rate in CY 2006. This translates into a property tax shift of about \$14 M. The public safety levies would still be part of the current maximum levy controls so the inclusion of additional assessed value does not generate additional revenue.

Abatement Credit: Under this proposal, a taxpayer in a municipal taxing district would receive an additional local property tax replacement credit against the municipality's portion of tax levies if (1) the municipal taxing district has a larger percentage of tax abatements and Enterprise Zone inventory credits as compared to gross assessed value than (2) the average percentage for all municipal taxing districts in the county. Credits would not be allowed in the county if all district abatement percentages vary from one another by 1% or less.

In a taxing district with a high abatement percentage, the credit would equal the difference between (1) the taxpayer's actual property tax liability to the municipality and (2) the taxpayer's recomputed liability to the municipality if tax rates in the district were computed using the average abatement percentage of all municipalities in the county.

The credit would be funded with an equalization property tax levied by each municipality. This levy would be outside of the maximum levy calculations for the municipality. The auditor will apply the credit to each taxpayer that qualifies and the taxpayer is not required to apply for the credit. If the equalization levy is insufficient to replace the revenue lost from these credits by the designating units, the distribution of replacement funds is to be proportionately reduced to each designating unit based on their relative gross assessed valuation.

Single Municipality Tax Shifts: All taxpayers within a municipality pay the same property tax rate for municipal services, regardless of the district in which the property is located. So, for example, if one taxpayer in each taxing district in the municipality had the same net AV, each of those taxpayers would pay exactly the

same amount of municipal taxes under current law, regardless of the district.

Under this provision, the credits would be funded by a levy paid by all taxpayers in the municipality. If taxpayers in some taxing districts receive a credit, but all taxpayers in the municipality help pay for the credit, then the net tax liabilities of the taxpayers in the districts with high abatement percentages would be reduced while the net tax liabilities of the taxpayers in the districts with low abatement percentages would be increased. The example taxpayers would no longer pay the same net amount.

Multiple Municipality Tax Shifts: In a case where there is more than one municipality in the county with abatements, the credits would be calculated using the average abatement percentages for all districts in all municipalities with abatements. However, since the credits for each municipality would be funded by a tax levy within that municipality, there would be no tax shifts between municipalities. Rather, the shifting would occur as it does when there is only a single municipality.

Overall, however, total net property tax levies in the county would decline because the state would pay PTRC and homestead credit on the equalization levy.

Background: The following chart shows the total assessed value of abatement and the net tax dollar amount of the abatements.

	Assessed Value	Net Tax Dollars
1994	1,098,090,431	96,370,085
1995	969,171,371	87,573,605
1996	1,079,077,083	106,169,772
1997	1,028,072,383	90,763,735
1998	1,012,550,919	86,845,433
1999	1,170,745,389	97,728,459
2000	1,434,077,171	121,832,900
2001	1,710,628,536	151,309,370
2002	5,543,719,781	168,215,854
2003	8,810,032,964	209,989,752

This provision would apply to property taxes due and payable after December 31, 2006.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Auditors, County Treasurers.

Information Sources:

Fiscal Analyst: Chuck Mayfield, 317-232-4825; Bob Sigalow, 317-232-9859.